

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NGWATHE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Ngwathe Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment as the municipality did not provide me with a complete and updated fixed asset register. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R1 125 971 550 (2011: R1 215 835 314) in note 8 to the financial statements was necessary.

Payables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for payables from non-exchange transactions, as the municipality was unable to reconcile the financial statements with the creditors age analysis and supplier statements and could, furthermore, not submit supporting documentation for journals, suspense account transactions and supplier statements. Furthermore, a limitation was placed on my audit of employee-related expenditure (refer paragraph 18), impacting on the leave accrual. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to payables from non-exchange transactions, stated at R204 718 314 (2011: R153 935 082) in note 11 to the financial statements, were necessary.

Investment property

6. I was unable to obtain sufficient appropriate audit evidence regarding investment property, as the municipality had not provided me with a complete and updated fixed asset register and also had not assessed the fair value at reporting date as required by SA Standards of GRAP, GRAP 16 *Investment property*. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustment relating to investment property, stated at R152 718 000 (2011: R152 718 000) in note 7 to the financial statements, was necessary.

Consumer debtors

7. The municipality did not correctly account for service charges and property rates income as required by SA Standards of GRAP, GRAP 1 *Presentation of financial statements* (GRAP 1), as service charges were not accounted for in the correct financial year and property rates income were not levied at the correct tariffs. Consequently, consumer debtors are understated by R4 972 215, while service charges income and property rates income are understated by R2 264 857 and R2 707 358, respectively. Furthermore, there is a consequential impact on the deficit for the period and accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding consumer debtors, as the municipality was not able to provide me with indigent applications, proof of subsequent payments by debtors and supporting documentation for journal entries, while the impairment calculation was not performed in terms of the reporting framework. I was unable to confirm consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors, stated at R124 753 936 (2011: R92 821 908) in note 5 to the financial statements, were necessary.

Trade and other receivables from non-exchange transactions

8. The municipality incorrectly classified additions to property, plant and equipment as trade and other receivables from non-exchange transactions, contrary to the requirements of SA Standards of GRAP, GRAP 17 *Property, plant and equipment*, which resulted in trade and other receivables from non-exchange transactions being overstated and property, plant and equipment being understated by R104 923 236 (2011: R92 393 953). In addition, I was unable to obtain sufficient appropriate audit evidence for the balance disclosed as trade and other receivables from non-exchange transactions, as supporting documentation could not be submitted for audit purposes. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments to trade and other receivables from non-exchange transactions, stated at R109 282 895 (2011: R97 889 898) in note 4 to the financial statements, were necessary.

Unspent conditional grants and receipts

9. The municipality did not correctly account for government grant and subsidy income in accordance with GRAP 1. Grant income was incorrectly offset against unspent conditional grants and receipts, which resulted in unspent conditional grants and receipts being overstated and government grant and subsidy income being understated by R3 272 000. Consequently, there is an impact on the deficit for the period and accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence for the unspent balance, as the municipality was unable to provide me with supporting documentation relating to expenditure funded from government grants and subsidies. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments to unspent conditional grants and receipts, stated at R37 965 774 (2011: R15 193 434) in note 15 to the financial statements, were necessary.

Retirement benefit obligation

10. The municipality incorrectly used a draft actuarial report when accounting for its retirement benefit obligations in terms of SA Standards of GRAP, GRAP 25 *Employee Benefits*. Consequently, the retirement benefit obligation as disclosed in note 14 is understated by R39 326 918 (2011: R34 048 597) and accumulated surplus is overstated by R34 048 597 (2011: R25 892 681), while personnel expenditure as disclosed in note 23 and finance cost as disclosed in note 27 are understated by R3 263 420 (2011: R4 408 793) and R2 014 901 (2011: R3 747 123), respectively.

Provisions

11. The municipality did not calculate the provision for environmental rehabilitation in accordance with SA Standards of GRAP, GRAP 19 *Provisions, contingent liabilities and contingent assets*. I was unable to obtain sufficient appropriate audit evidence regarding the value of the provision as the municipality could not provide me with an updated report, which indicates the percentage of use of the land-fill sites at reporting date. I was unable to confirm the valuation by alternative means. Consequently, I was unable to determine whether any adjustments to the provisions, stated at R29 095 153 (2011: R24 051 280) in note 16 to the financial statements, were necessary.

Other financial liabilities

12. The municipality did not correctly account for grant income of R5 000 000 in accordance with GRAP 1. The income was accounted for as other financial liabilities. Consequently, other financial liabilities are overstated and government grant and subsidies income are understated by R5 000 000. Consequently, there is an impact on the deficit for the period and accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding other financial liabilities, as supporting documentation was not submitted for journals. I was unable to confirm the other financial liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments relating to other financial liabilities, stated at R22 318 329 (2011: R22 525 140) in note 10 to the financial statements, were necessary.

Other financial assets

13. The municipality has not accounted for other financial assets in accordance with GRAP 1. An investment which was used to redeem an outstanding loan was not offset against each other in the financial records of the municipality. Consequently, other financial assets as disclosed in note 3 and accumulated surplus are overstated by R7 863 998 (2011: R7 863 998).

VAT Payable

14. The municipality has not accounted for expenditure in accordance with GRAP 1. The municipality did not claim VAT on all the bulk purchases. Consequently, bulk purchases as well as VAT payable are overstated by R8 091 953. Consequently, there is an impact on the deficit for the period and accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding VAT payable, as the municipality had not performed sufficient reconciliations between the returns and the general ledger while supporting documentation for journals processed could not be submitted. I was unable to confirm the outstanding balance by alternative means. Consequently, I was unable to determine whether any further adjustments relating to VAT payable, stated at R4 099 230 (2011: R3 552 803) in the financial statements, were necessary.

Consumer deposits

15. I was unable to obtain sufficient appropriate audit evidence that all consumer deposits were accounted for, as I could find no proof that selected consumers had paid deposits which had been accounted for. I was unable to confirm the completeness by alternative means. Consequently, I was unable to determine whether any adjustments to consumer deposits, stated at R3 778 459 (2011: R3 583 682) in note 13 to the financial statements, were necessary.

Government grant and subsidies

16. The municipality did not correctly account for government grant and subsidy income in accordance with GRAP 1. The income was accounted for as other financial liabilities and was offset against unspent conditional grants. Consequently, government grant and subsidies are understated by R8 272 000, while unspent conditional grants and other financial liabilities are overstated by R3 272 000 and R5 000 000, respectively. Consequently, there is an impact on the deficit for the period and accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding government grant and subsidies, as supporting documentation for expenditure transactions was not submitted. I was unable to confirm the government grants and subsidies by alternative means. Consequently, I was unable to determine whether any further adjustments relating to government grant and subsidies, stated at R160 047 176 (2011: R171 313 382) in note 20 to the financial statements, were necessary.

Service charges

17. I was unable to obtain sufficient appropriate audit evidence regarding service charges income, as reconciliations were not performed between bulk purchases and units sold, meter readings were incomplete and inaccurate, a list of meters was unavailable and supporting documents had not been submitted for audit purposes. I was unable to confirm service charges income by alternative means. Consequently, I was unable to determine whether any adjustment relating to service charges income, stated at R154 865 847 (2011: R132 358 998) in note 19 to the financial statements, was necessary.

Employee related expenditure

18. I was unable to obtain sufficient appropriate audit evidence regarding personnel expenditure, as the municipality was unable to reconcile the financial statements with the payroll records and could not explain differences between payslips and the bank records, while documentation to support personnel expenditure could not be submitted for audit purposes. I was unable to confirm personnel expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to personnel expenditure, stated at R127 887 861 (2011: R125 361 720) in note 22 to the financial statements, was necessary.

Bulk purchases

19. The municipality did not correctly classify interest paid on bulk purchases in accordance with GRAP 1. Interest charged on outstanding balances was incorrectly classified as bulk purchases. Consequently, bulk purchases as disclosed in note 29 to the financial statements are overstated by R9 573 128 and finance costs understated by R9 573 128.

Depreciation and amortisation

20. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation due to the scope limitation placed on my audit of property, plant and equipment. I was unable to confirm the depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and amortisation, stated at R98 144 384 (2011: R96 992 682) in note 25 to the financial statements, were necessary.

General expenses

21. The municipality did not have adequate systems in place to accurately apply the accrual basis of accounting as required by GRAP 1. General expenses incurred in the previous financial year were incorrectly accounted for in the current financial year. Consequently, general expenses and the deficit for the period are overstated by R10 078 530. Consequently, there is an impact on the corresponding balances for payables from non-exchange transactions and accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding general expenses, as the municipality had not provided me with supporting documentation for selected journals and other expense transactions. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments relating to general expenses, stated at R92 603 110 (2011: R50 286 360) in note 31 to the financial statements, were necessary.

Property rates

22. The municipality did not account for rebates given on property rates income in accordance with GRAP 1. The municipality allocated all rebates to service charges income. Consequently, property rates income is overstated by R11 703 170 and service charges income is understated by R11 703 170. In addition, I was unable to obtain sufficient appropriate audit evidence regarding property rates income, as a reconciliation was not performed between the valuation roll and the income charged. I was unable to confirm property rates income by alternative means. Consequently, I was unable to determine whether any further adjustment relating to property rates income, stated at R68 562 847 (2011: R52 341 477) in note 18 to the financial statements, was necessary.

Impairment loss

23. I was unable to obtain sufficient appropriate audit evidence regarding impairment loss due to the scope limitation placed on my audit of property, plant and equipment and consumer debtors. I was unable to confirm the impairment loss by alternative means. Consequently, I was unable to determine whether any adjustments relating to the impairment loss, stated at R49 058 191 (2011: R3 490 618) in note 26 to the financial statements, were necessary.

Interest received

24. I was unable to obtain sufficient appropriate audit evidence regarding interest received due to the scope limitation placed on my audit of consumer debtors. I was unable to confirm the interest received by alternative means. Consequently, I was unable to determine whether any adjustments relating to interest received, stated at R17 678 084 (2011: R13 446 988) in note 22 to the financial statements, were necessary.

Repairs and maintenance

25. The municipality did not capitalise all items of property, plant and equipment in accordance with SA Standards of GRAP, GRAP 17 *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as repairs and maintenance expenditure. Consequently, repairs and maintenance expenditure is overstated and property, plant and equipment understated by R6 739 297. Consequently, there is an impact on the deficit for the period and the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding repairs and maintenance, as the municipality had not provided me with the required expenditure vouchers. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any further adjustment relating to repairs and maintenance expenditure, stated at R11 325 826 (2011: 16 258 342) in the financial statements, was necessary.

Finance cost

26. The municipality did not classify finance cost expenditure in accordance with GRAP 1. The municipality did not have adequate controls in place to ensure the correct classification of finance cost expenditure. Consequently, finance cost expenditure as disclosed in note 27 is understated by R7 693 913 and general expenses as disclosed in note 31 are understated by R1 461 713, while other financial liabilities as disclosed in note 10 are overstated by R2 432 403, bulk purchases as disclosed in note 29 are overstated by R9 573 128 and post-employment benefit obligation as disclosed in note 14 is understated by R2 014 901.

Accumulated surplus

27. I was unable to obtain sufficient appropriate audit evidence regarding the accumulated surplus and statement of changes in net assets, as I could not obtain supporting documentation for the prior year corrections made as well as the limitations which were placed on my audit of numerous components of the financial statements. I was unable to confirm the accumulated surplus and the statement of changes in net assets by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus, stated at R1 218 045 344 (2011: R1 320 069 687) in the financial statements, were necessary.

Cash flow statement

28. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit of various components of the financial statements. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement in the financial statements was necessary.

Related parties

29. I was unable to obtain sufficient appropriate audit evidence regarding related parties, as the municipality had not provided me with the required information regarding related-party relationships and transactions. I was unable to confirm the completeness by alternative means. Consequently, I was unable to determine whether any adjustments relating to related parties in the financial statements were necessary.

Fruitless and wasteful expenditure

30. The municipality did not include particulars of all the fruitless and wasteful expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality made payments which could have been avoided had reasonable care been taken, resulting in fruitless and wasteful expenditure being understated by R437 458. In addition, I was unable to obtain sufficient appropriate audit evidence that all instances of fruitless and wasteful expenditure had been disclosed, as supporting documentation was not submitted for some of the expenditure transactions selected and differences between the financial statements and supporting schedules could not be explained. I was unable to confirm the completeness by alternative means. Consequently, I was unable to determine whether any further adjustments relating to fruitless and wasteful expenditure, stated at R25 057 249 (2011: R11 773 482) in note 42 to the financial statements, were necessary.

Irregular expenditure

31. The municipality did not include particulars of irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality made payments which were not appropriately approved, resulting in irregular expenditure being understated by R8 014 130. In addition, I was unable to obtain sufficient appropriate audit evidence that all instances of irregular expenditure had been disclosed, as the municipality did not submit an irregular expenditure register and supporting documentation was not submitted for some of the expenditure transactions selected. I was unable to confirm the completeness by alternative means. Consequently, I was unable to determine whether any further adjustments relating to irregular expenditure, stated at R13 979 366 (2011: R13 979 366) in note 39 to the financial statements, were necessary.

Unauthorised expenditure

32. The municipality did not include particulars of unauthorised expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality overspent on its approved budget, resulting in unauthorised expenditure being understated by R116 060 646. In addition, I was unable to obtain sufficient appropriate audit evidence that all instances of unauthorised expenditure had been disclosed, as the municipality had not provided me with a breakdown of the surplus/deficit per vote and supporting documentation was not submitted for some of the expenditure transactions selected. I was unable to confirm the completeness by alternative means. Consequently, I was unable to determine whether any further adjustments relating to unauthorised expenditure, stated at R0 (2011: R0) in the financial statements, were necessary.

Financial instruments

33. The municipality did not disclose information on the liquidity and credit risk exposure and provided a maturity and sensitivity analysis as required by SA Standards of GRAP, GRAP 104 *Financial instruments*.

Councillors' arrear consumer accounts

34. The municipality did not include particulars of all the councillors' arrear consumer accounts in the notes to the financial statements, as required by section 124(1)(b) of the MFMA. I have identified councillors with consumer accounts outstanding for more than 90 days which were not disclosed in the note, resulting in the total councillor arrear consumer accounts being understated by R52 799. In addition, I was unable to obtain sufficient appropriate audit evidence that all the councillors' arrear consumer accounts were disclosed, as sufficient

documentation regarding some of the councillors' consumer account details was not submitted. I was unable to confirm the completeness by alternative means. Consequently, I was unable to determine whether any further adjustments relating to councillors' arrear consumer accounts, stated at R181 550 (2011: R90 696) in note 40 to the financial statements, were necessary.

Contingent liabilities

35. The municipality did not disclose all contingent liabilities in accordance with SA Standards of GRAP, GRAP 19 *Provisions, contingent liabilities and contingent assets*. The municipality managed two waste sites without the required permits. Consequently, contingent liabilities as disclosed in note 38 to the financial statements are understated by R10 000 000.

Distribution losses

36. The municipality did not include particulars of material losses in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. I was unable to obtain sufficient appropriate audit evidence regarding distribution losses. I was unable to confirm distribution losses by alternative means. Consequently, I was unable to determine whether any adjustments relating to distribution losses, stated at R0 (2011: R0) in the financial statements, were necessary.

Commitments

37. I was unable to obtain sufficient appropriate audit evidence regarding capital commitments due to an inadequate contract management system and incomplete contract register. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to capital commitments, stated at R193 516 763 (2011: R212 215 587) in note 36 to the financial statements, was necessary.

Financial sustainability

38. As a result of the matters described in the basis for disclaimer of opinion paragraphs, the municipality may be in a worse financial position than the position reflected in these financial statements. The difficulties being experienced by the municipality in recovering its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the inability to settle accounts payable within an acceptable period indicate that there is a risk that the municipality may be exposed to serious financial difficulties in terms of section 138 of the MFMA. The financial statements did not disclose any details of the uncertainty and had been prepared on a going concern basis. The municipality's accounting records did not provide sufficient appropriate audit evidence that the municipality is able to continue as a going concern.

Disclaimer of opinion

39. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

40. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

41. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the annual financial statements of the municipality at, and for the year ended, 30 June 2011.

Material underspending of the conditional grant

42. As disclosed in note 15 to the financial statements, the municipality has materially underspent the budget on municipal infrastructure grant to the amount of R21 150 904. As a consequence, the municipality has not achieved its objective of providing infrastructure for service delivery.

Material losses and impairments

43. As disclosed in note 26 to the financial statements, material losses to the amount of R49 058 191 (2011: R3 490 618) were incurred as a result of an increase in the provision for impairment relating to the recoverability of consumer debtors.

Additional matters

44. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

45. Chapter 5 of the annual report indicates equity as R0. This is inconsistent with the financial statements where equity is disclosed as R1 218 045 344.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

46. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

47. I am unable to report findings on the usefulness and reliability of the annual performance report of the Ngwathe Local Municipality as it was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

48. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Strategic planning and performance management

49. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP by means of a municipal-wide structure for community participation, as required by section 28 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and Local Government: Municipal Planning and Performance

Management (MPPM) regulation 15(1)(a)(i).

50. The municipality did not afford the local community at least 21 days to comment on the final draft of its IDP before the plan was submitted to council for adoption, as required by MPPM regulation 15(3).
51. The municipality did not establish a performance management system, as required by section 38(a) of the MSA and MPPM regulation 7(2)(c), (e), (f) and (g).
52. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan; set measurable performance targets with regard to each development priority and objective; monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set; measure and review performance at least once per year with regard to each of those development priorities and objectives and against the key performance indicators and targets set; and take steps to improve performance with regard to those development priorities and objectives where performance targets are not met. as required by section 41 of the MSA.

Budget

53. Sufficient appropriate audit evidence could not be obtained that quarterly reports on the implementation of the budget and financial state of affairs of the municipality were submitted to council within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
54. Sufficient appropriate audit evidence could not be obtained that the 2011-12 adjustment budget was approved by the council, as required by Municipal Budget and Reporting Regulation 25.
55. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and relevant provincial treasury, as required by section 71(1) of the MFMA.
56. Sufficient appropriate audit evidence could not be obtained that the accounting officer assessed the municipality's performance for the first half of the financial year, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.
57. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section [15 / 87(8)] of the MFMA.

Annual financial statements, performance reports and annual reports

58. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
59. The accounting officer did not submit the financial statements for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
60. Sufficient appropriate audit evidence could not be obtained that the late submission of the annual financial statements to the Auditor-General for auditing was appropriately addressed by the mayor and municipal council, as required by section 133(1) of the MFMA.

61. Sufficient appropriate audit evidence could not be obtained that the 2010-11 annual report was tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
62. Sufficient appropriate audit evidence could not be obtained that the accounting officer had made the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
63. Sufficient appropriate audit evidence could not be obtained that the municipal council had adopted an oversight report, containing comments on the annual report, within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.
64. Sufficient appropriate audit evidence could not be obtained that the accounting officer had made public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
65. The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, as well as the accounting officer's assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote, as required by MFMA 121(3)(e) and (f).

Audit committee

66. An audit committee was not in place, as required by section 166(1) of the MFMA.
67. A performance audit committee was not in place, as required by MPPM regulation 14(2)(a).

Internal audit

68. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, the annual DoRA and any other applicable legislation, as required by section 165(2)(b) of the MFMA.

Expenditure management

69. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
70. Sufficient appropriate audit evidence could not be obtained that payments had been approved by the accounting officer or a properly authorised official, as required by section 11(1) of the MFMA.
71. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
72. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
73. Unauthorised, irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.
74. Sufficient appropriate audit evidence could not be obtained that the accounting officer reported to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, theft and fraud that occurred in the municipality and losses suffered as a result of criminal conduct, as required by section 32(6) of the MFMA.

Conditional grants received

75. Sufficient appropriate audit evidence could not be obtained that monthly budget statements included the amount received by the municipality, the amount of funds stopped or withheld from the municipality, the extent of compliance with DoRA and with the conditions of the allocation, an explanation of material problems experienced by the municipality and a summary of the steps taken to deal with such problems, as required by section 12(2)(b) of DoRA.
76. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted quarterly performance reports to the transferring national officer, the Free State Provincial Treasury and the National Treasury within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.
77. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of DoRA.
78. Unspent conditional grant funds not committed to identifiable projects were not surrendered to National Revenue Fund, as required by section 20(1) of DoRA.
79. Sufficient appropriate audit evidence could not be obtained that the municipality had timeously submitted project registration forms for projects it intended implementing in the financial year under review to the Department of Local Government, as required by the *Division of Revenue Grant Framework, Gazette No.34280*.
80. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted project implementation plans to the national department (CoGTA), as required by the *Division of Revenue Grant Framework, Gazette No.34280*.
81. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the *Division of Revenue Grant Framework, Gazette No.34280*.
82. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted its signed activity plan and/or had done so in the prescribed format to the national department (CoGTA), as required by the *Division of Revenue Grant Framework, Gazette No.34280*.
83. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted, within 20 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the *Division of Revenue Grant Framework, Gazette No.34280*.

Revenue management

84. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, as required by section 64(2)(e) of the MFMA.
85. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
86. Accounts for municipal tax and charges for municipal services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
87. Sufficient audit evidence could not be obtained that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

- 88. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- 89. An effective system of internal control for assets, including an asset register, was not in place, as required by section 63(2)(c) of the MFMA.
- 90. Sufficient appropriate audit evidence could not be obtained that the council had approved the investment policy of the municipality, as required by Municipal Investment Regulation 3(1)(a).
- 91. Sufficient appropriate audit evidence could not be obtained that all investments were made in accordance with the requirements of the investment policy, as required by Municipal Investment Regulation 3(3).
- 92. Sufficient appropriate audit evidence could not be obtained that the required reports describing the investment portfolio of the municipality were submitted to the mayor at the end of each month, as required by the Municipal Investment Regulation 9(1).

Liability management

- 93. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
- 94. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Procurement and contract management

- 95. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by Supply Chain Management (SCM) Regulations 17(a) and (c).
- 96. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids or that deviations approved by the accounting officer were only permitted if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).
- 97. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
- 98. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
- 99. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who had submitted a declaration as to whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
- 100. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and that a procurement process which is fair, equitable, transparent and competitive had been followed, as management did not ensure that adequate documentation was kept to support procurement decisions.

Human resource management and compensation

101. Sufficient appropriate audit evidence could not be obtained that the competencies of financial and supply chain management officials were assessed promptly in order to identify and address gaps in competency levels, as required by the Municipal Regulations on Minimum Competency Levels, Regulation 13.
102. Sufficient appropriate audit evidence could not be obtained that the municipality had submitted a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by the Municipal Regulations on Minimum Competency Levels, Regulation 14(2)(a).
103. Sufficient appropriate audit evidence could not be obtained that appointments were made in the post of municipal manager that had been advertised, as required by sections 54A(4) and 56(3) of the MSA.
104. Sufficient appropriate audit evidence could not be obtained that newly appointed municipal managers had submitted proof of previous employment and disclosure of financial interests prior to appointment, as per the requirements of regulation 4 of GNR 805.
105. Sufficient appropriate audit evidence could not be obtained that the municipality had appointed a municipal manager, and managers directly accountable to municipal managers, who had not been dismissed for financial misconduct after expiry of 10 years.
106. Sufficient appropriate audit evidence could not be obtained that the municipal manager and senior managers directly accountable to the municipal manager had signed performance agreements, as required by section 57(2)(a) MSA.
107. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of MSA.

Environmental management

108. The municipality operated two waste disposal sites without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

Internal control

109. I considered internal control relevant to my audit of the financial statements, 2012 annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the 2012 annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

110. Key management positions were vacant during the year under review.
111. Leadership did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of preparing bank reconciliations, ensuring proper records management, maintaining an asset register and preparing the annual financial statements.
112. Leadership of the municipality did not take timeous and adequate action to address weaknesses in the finance and SCM directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.
113. Leadership of the municipality did not ensure that internal control procedures were developed, implemented and monitored to ensure that daily disciplines were performed and reviewed.
114. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evidenced by the failure of management to adequately address the external audit findings of the previous financial year in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report recurring in the current year.
115. Leadership of the municipality failed to implement adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were revealed.

Financial and performance management

116. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented.
117. Inadequate filing procedures at the municipality resulted in limitations of scope during the current and previous year's audits. As a result significant difficulties were experienced in respect of the availability of information.
118. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure or non-disclosure in the financial statements.
119. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants assisted with the preparation of an asset register and financial statements. After the compilation of the financial statements the consultants left the municipality, failing to supply supporting evidence, caused by the non-payment of the consultants by the municipality.
120. Finance staff had an insufficient understanding of the accounting framework. This contributed towards the numerous qualifications in the financial statements of the municipality.

Governance

- 121. The financial statements contained numerous inaccuracies which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
- 122. The municipality did not have an approved documented fraud prevention plan. Internal control deficiencies were not identified and communicated in a timely manner to allow for corrective action to be taken. The implementation of external audit recommendations was not monitored. This resulted in the prior year audit findings not being substantially addressed.
- 123. Although the municipality had an internal audit division, it was not adequately resourced and did also not function effectively to identify internal control deficiencies and provide recommendations.
- 124. An audit committee and performance audit committee was not in place for the financial year.

Auditor -General

Bloemfontein

30 April 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence